

PROJECT ANGEL FOOD

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2008

PROJECT ANGEL FOOD
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Project Angel Food

We have audited the accompanying statement of financial position of Project Angel Food (a nonprofit organization) as of June 30, 2008 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Project Angel Food's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Project Angel Food's 2007 financial statements and, in our report dated December 27, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Angel Food as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2009 on our consideration of Project Angel Food's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Board of Directors
Project Angel Food
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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Green Hasson & Janks LLP

January 8, 2009
Los Angeles, California

PROJECT ANGEL FOOD

STATEMENT OF FINANCIAL POSITION

June 30, 2008

With Summarized Totals at June 30, 2007

	Unrestricted	Temporarily Restricted	2008	2007
ASSETS				
Cash	\$ 134,866	\$ -	\$ 134,866	\$ 532,106
Investments	16,411	-	16,411	18,454
Accounts Receivable	32,740	-	32,740	18,250
Pledges and Contributions Receivable (Net)	-	392,018	392,018	571,988
Other Assets	43,775	-	43,775	40,266
Property and Equipment (Net)	7,952,629	-	7,952,629	8,926,585
TOTAL ASSETS	\$ 8,180,421	\$ 392,018	\$ 8,572,439	\$ 10,107,649
LIABILITIES AND NET ASSETS				
LIABILITIES:				
Accounts Payable	\$ 270,656	\$ -	\$ 270,656	\$ 369,773
Accrued Liabilities	180,800	-	180,800	265,023
Lines of Credit	170,000	-	170,000	305,000
Notes Payable	3,422,075	-	3,422,075	4,986,646
TOTAL LIABILITIES	4,043,531	-	4,043,531	5,926,442
NET ASSETS:				
Unrestricted	4,136,890	-	4,136,890	1,176,623
Unrestricted - Board Designated	-	-	-	227,088
TOTAL UNRESTRICTED NET ASSETS	4,136,890	-	4,136,890	1,403,711
Temporarily Restricted	-	392,018	392,018	2,777,496
TOTAL NET ASSETS	4,136,890	392,018	4,528,908	4,181,207
TOTAL LIABILITIES AND NET ASSETS	\$ 8,180,421	\$ 392,018	\$ 8,572,439	\$ 10,107,649

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

With Summarized Totals for the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	2008	2007
REVENUE AND SUPPORT:				
Public Support:				
Direct Marketing	\$ 1,038,472	\$ -	\$ 1,038,472	\$ 1,059,657
Corporate and Foundation Grants	761,334	-	761,334	781,614
Contributions	527,878	-	527,878	540,050
Wills and Bequests	258,824	-	258,824	16,427
Capital Campaign	-	742,626	742,626	1,393,791
TOTAL PUBLIC SUPPORT	2,586,508	742,626	3,329,134	3,791,539
Fees from Government Agencies:				
Federal Grants and Contracts	329,575	-	329,575	303,104
State and Local Grants and Contracts	63,745	-	63,745	61,918
TOTAL FEES FROM GOVERNMENT AGENCIES	393,320	-	393,320	365,022
Special Events Revenue:				
Gross Receipts	2,633,628	-	2,633,628	2,702,931
Less: Costs of Direct Benefit to Donors	(1,093,149)	-	(1,093,149)	(1,332,014)
NET SPECIAL EVENTS REVENUE	1,540,479	-	1,540,479	1,370,917
Rental Income (Net)	31,194	-	31,194	185,628
Interest and Dividends	10,715	-	10,715	13,463
Gain (Loss) on Investments	(2,820)	-	(2,820)	20,233
Gain on Sale of Fixed Assets	324,140	-	324,140	-
Net Assets Released from Capital Restrictions	3,128,104	(3,128,104)	-	-
TOTAL REVENUE AND SUPPORT	8,011,640	(2,385,478)	5,626,162	5,746,802
EXPENSES:				
Program Services	4,208,055	-	4,208,055	3,676,495
Support Services	1,070,406	-	1,070,406	1,117,319
TOTAL EXPENSES	5,278,461	-	5,278,461	4,793,814
CHANGE IN NET ASSETS	2,733,179	(2,385,478)	347,701	952,988
Net Assets - Beginning of Year	1,403,711	2,777,496	4,181,207	3,228,219
NET ASSETS - END OF YEAR	\$ 4,136,890	\$ 392,018	\$ 4,528,908	\$ 4,181,207

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008

With Summarized Totals for the Year Ended June 30, 2007

	Program Services	Support Services			Total Expenses	
		Management and General	Fundraising	Total	2008	2007
Salaries	\$ 1,754,604	\$ 211,440	\$ 191,386	\$ 402,826	\$ 2,157,430	\$ 2,029,007
Employee Benefits	229,837	20,017	16,106	36,123	265,960	235,377
Payroll Taxes	145,820	17,893	15,550	33,443	179,263	180,171
TOTAL PERSONNEL COSTS	2,130,261	249,350	223,042	472,392	2,602,653	2,444,555
Food and Containers	905,663	-	-	-	905,663	803,604
Meal Delivery	84,485	389	530	919	85,404	78,326
Client Outreach and Education	28,914	119	20	139	29,053	47,953
Community Outreach	211,792	9,434	1,572	11,006	222,798	116,014
Volunteer Management	17,478	-	-	-	17,478	24,480
Depreciation	190,637	6,817	58,443	65,260	255,897	79,233
Occupancy	201,266	28,083	4,680	32,763	234,029	297,473
Utilities	83,613	10,663	3,274	13,937	97,550	83,164
Repairs and Maintenance	67,874	8,985	1,577	10,562	78,436	30,182
Insurance	41,811	5,535	923	6,458	48,269	74,930
Furniture and Equipment Rental	12,313	1,718	286	2,004	14,317	15,480
Staff and Board Development	2,464	344	57	401	2,865	3,034
Direct Mail	33,932	8,483	382,928	391,411	425,343	470,421
Consultants and Outside Services	48,950	3,547	5,935	9,482	58,432	56,989
Travel	37,247	4,373	1,960	6,333	43,580	14,735
Printing	35,276	4,787	1,417	6,204	41,480	53,272
Postage	20,572	2,222	9,631	11,853	32,425	20,419
Bank Charges	9,051	1,263	3,732	4,995	14,046	7,480
Interest Expense	17,745	2,463	12,205	14,668	32,413	27,093
Office Supplies	17,466	1,817	2,671	4,488	21,954	14,927
Dues, Subscriptions and Publications	2,914	317	3,364	3,681	6,595	10,889
Miscellaneous	2,809	392	465	857	3,666	9,798
Employment Recruitment	2,905	234	259	493	3,398	2,006
Legal	617	86	14	100	717	7,357
TOTAL 2008 FUNCTIONAL EXPENSES	\$ 4,208,055	\$ 351,421	\$ 718,985	\$ 1,070,406	\$ 5,278,461	
TOTAL 2007 FUNCTIONAL EXPENSES	\$ 3,676,495	\$ 422,495	\$ 694,824	\$ 1,117,319		\$ 4,793,814

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

With Summarized Totals for the Year Ended June 30, 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 347,701	\$ 952,988
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	255,897	97,889
Depreciation on Rental Property	1,059	6,356
Net Proceeds from Rental Activities	(31,194)	(185,628)
(Gain) Loss on Investments	2,820	(20,233)
Gain on Sale of Fixed Assets	(324,140)	-
Donated Investments	(27,379)	(24,466)
Service Payback of Note Payable	(32,222)	(40,000)
Contributions Received for Capital Campaign	(742,626)	(1,382,425)
(Increase) Decrease in:		
Accounts Receivable	(14,490)	127,796
Pledges and Contributions Receivable	179,970	(294,988)
Other Assets	(3,509)	33,959
Increase (Decrease) in:		
Accounts Payable	(99,117)	19,019
Accrued Liabilities	(84,223)	146,946
	(571,453)	(562,787)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on Sale of Investments	26,602	536,970
Purchases of Property and Equipment	(1,497,402)	(1,767,746)
Net Proceeds from Rental Activity	31,194	185,628
Proceeds from Sale of Property and Equipment	2,538,542	-
	1,098,936	(1,045,148)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Payments on Lines of Credit	(135,000)	(326,102)
Proceeds from Notes Payable	-	774,626
Payments on Notes Payable	(1,532,349)	(18,375)
Contributions Received for Capital Campaign	742,626	1,382,425
	(924,723)	1,812,574
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	(397,240)	204,639
Cash - Beginning of Year	532,106	327,467
CASH - END OF YEAR	\$ 134,866	\$ 532,106
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest Including Capitalized Interest of \$76,785 in 2008 and \$280,807 in 2007	\$ 244,428	\$ 307,900

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - ORGANIZATION

Project Angel Food's mission is to nourish the body and spirit of men, women and children affected by HIV/AIDS, cancer, and other life-threatening illnesses.

Project Angel Food is unique: they are the only organization that delivers freshly-cooked, nutritiously-appropriate meals, free-of-charge to men, women and children debilitated by life-threatening illnesses throughout all of Los Angeles County.

During the twelve months covered in this audit, Project Angel Food realized many milestones. In September 2007, they moved their headquarters from a rented space at 7574 Sunset Boulevard to their first permanent home at 922 Vine Street, with a much-needed expanded kitchen and dispatch area. Moving to the Vine Street building was also a wise decision financially: they are no longer subject to rising rents and instead are investing that money into their own building, laying the foundation for decades of continuing service. On November 15, 2007, Project Angel Food cooked their five millionth meal, which was personally delivered by Mayor Antonio Villaraigosa. From July 1, 2007 to June 30, 2008, they cooked and delivered 535,062 meals to the homes of more than 2,000 people in need throughout Los Angeles County.

History of Project Angel Food

In 1989, Project Angel Food was conceived by a group of caring friends driven to action after witnessing their loved ones' health deteriorate as a result of disease and the malnutrition that accompanies it. Project Angel Foods first meals were cooked and delivered out of a donated church kitchen. Nineteen years later, Project Angel Food is a nationally-respected organization with an involved Board of Directors, a professional staff and more than 1,500 active volunteers. Yet their goals remain consistent: they continue to combat the hardships endured by people with HIV/AIDS, cancer and other life-threatening illnesses through cooking and delivering free, nutritious meals to their homes

Project Angel Food Work

Six days a week volunteers arrive at Project Angel Food's kitchen at 8am to begin a day of cooking and packing more than 1,500 meals that have been designed by an on-staff Registered Dietician to address the nutritional and physical needs of the people we serve. Once the meals are cooked, "plated" and sealed, they move to dispatch for routing. (A meal for Saturday is delivered on Friday.) Meals are then divided into routes that serve all of Los Angeles County – from Lancaster, to Long Beach, and Pomona to the West Valley. Project Angel Food will also deliver meals to a doctor's office or medical clinic if a client has such frequent doctors' visits that they cannot be home for deliveries.

Project Angel Food's professional staff of registered dieticians, certified by the American Dietetic Association, is specialized in nutrition and disease. For example, they understand that people undergoing chemotherapy often have no interest in eating and that every bite must be nutritionally powerful. Therefore, Project Angel Food purchases pasta with a high protein count, serves impactful vegetables like broccoli and spinach, and makes sure that desserts are nutritionally valuable.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - ORGANIZATION (continued)

Project Angel Food's meals also help manage a range of secondary medical conditions like hypertension, heart disease, and low body weight that can be brought on by poor nutrition, the stresses of a life-threatening illness, and its often grueling treatments. They also take great care to ensure their meals are both delicious and visually appealing - two very important considerations when feeding people facing life threatening illnesses and the depression that often accompanies it.

Project Angel Food's Breakfast - Critical First Meal program, which supplements their regular meal delivery, is aimed at their most vulnerable clients: those with so few resources that they rely exclusively on Project Angel Food for their food needs. Project Angel Food knows that the additional breakfast meal has a positive impact on their well-being by providing crucial calories and nutrients, and reducing the level of food insecurity. Breakfast is also vital because many of their clients take morning medications, and they no longer have to do so on an empty stomach (or worse, delay their medications until their mid-day meal arrives.)

Project Angel Food also empowers clients to make healthier, more informed eating choices overall. Throughout the year, each client speaks with a Registered Dietitian at regular intervals. For example, a client with significant fluctuations in his/her health will speak monthly with a dietitian, whereas someone with a more consistent medical scenario might only need to check in once or twice per year. During these nutritional counseling sessions, clients learn about the complex interrelationship between their diet, exercise and lifestyle patterns, disease status, medication and general health.

The People Project Angel Food Serves

Project Angel Food proudly serves any man, woman, or child struggling by HIV/AIDS, cancer, or other life-threatening illness rendering them too weak to shop for groceries or cook their own meals. Clients range in age from 14 – 99 years old. Project Angel Food serves all of Los Angeles County and their client population reflects its diversity: 65% of their clients are people of color; they serve more women, 35%, than anytime in their history; they honor people of all sexual orientations.

The majority of Project Angel Food's clients are everyday people who led productive lives and careers prior to their disability from life-threatening illness. In fact, Project Angel Food's annual client survey reveals a wide range of occupations held by clients before their diagnosis—school teachers, nurse assistants, welders, carpenters, legal secretaries, engineers, accountants, truck drivers, computer technicians, hair stylist and salesmen.

Evaluation of Project Angel Food Program

Project Angel Food's staff -- registered dietitians, client services team, kitchen staff, dispatch and delivery driving crew -- work together to monitor the number of meals planned, prepared, delivered and received. This system of checks and balances ensures that no one who needs a meal is missed, and keeps the nutrition and client services team aware of each particular client's health.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - ORGANIZATION (continued)

Project Angel Food also distributes an annual Client Satisfaction Survey to better understand the degree to which they are meeting their clients' needs. The survey also affords clients the chance to self-report on the impact the program is having on their lives with room for comments relating to services.

Project Angel Food also seeks ongoing verbal feedback and perspective from their clients in two ways. The Client Advisory Board (CAB) is a group that meets quarterly and is open to all clients of the agency. These meetings typically follow an agenda with a specific topic to discuss followed by a question-and-answer session that gives clients a forum to voice their opinions about the agency's services. In addition, Project Angel Food has two clients who serve on the agency's Board of Directors. These two client representatives bring a unique perspective to the organization's governance and make sure that the focus remains on the best interests of the people that they serve.

Organizational Structure

Project Angel Food is governed by a twenty-one member volunteer Board of Directors including two Client Representatives nominated by the Client Advisory Board. The Board of Directors provides strategic vision and direction for agency endeavors, and assumes financial and legal oversight of the organization. A six-member management team oversees the daily operations of the agency. Forty-five staff members comprise the program, kitchen and dispatch teams (including client services, nutrition services and volunteer services), fulfilling the mission of the organization. They are supported by a dedicated corps of volunteers and the seven members of the development, special events and administrative staffs.

Volunteers continue to be the heart and soul of Project Angel Food. In 2007, 1,500 volunteers contributed 44,000 hours of service, the equivalent of 22 full-time staff, and an incredible cost-saving to the organization. More importantly, volunteers provide a critical human touch to the Project Angel Food program with an element of caring and compassion that is unmatched and often missing from the lives of the people served.

Collaborations

Every week, Project Angel Food is an agency of collaboration. Nationally, they are an active member of the Association of Nutrition Services Agencies (ANSA). Locally, they collaborate with more than ninety social service and medical organizations throughout Los Angeles County but, of course, welcome referrals from all groups and individuals. With many organizations, they have reciprocal agreements to share copies of client intake forms and documentation so that clients are spared duplicative, exhaustive and time-consuming intake and document-gathering process. By collaborating and building relationships with many organizations, Project Angel Food "drills" into the various communities of Los Angeles County and address the nutritional needs of the many people struggling with HIV/AIDS, cancer and other life-threatening illnesses.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 1 - ORGANIZATION (continued)

Project Angel Food's Commitment to the Community

Nearly two decades of continuous service prove Project Angel Food's effectiveness in the preparation and delivery of quality food that support the specific nutritional needs of people affected by HIV/AIDS, cancer and other life-threatening illnesses. Today, Project Angel Food cooks and delivers more than 10,000 meals a week to people for whom a healthy meal, delivered with a warm smile, is truly life-saving. For Life, For Love, For as long as it takes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **BASIS OF PRESENTATION**

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) **ACCOUNTING**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of Project Angel Food are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Unrestricted - Board Designated.** These are comprised of resources that the Board of Directors has established to be utilized for discretionary purposes. Project Angel Food has no board designated unrestricted net assets at June 30, 2008.
- **Temporarily Restricted.** Project Angel Food reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from program or capital restrictions. Project Angel Food has temporarily restricted net assets of \$392,018 at June 30, 2008.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) **ACCOUNTING** (continued)

- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit Project Angel Food to expend all of the income (or other economic benefits) derived from the donated assets. Project Angel Food has no permanently restricted net assets at June 30, 2008.

(c) **CASH**

Cash consists of interest bearing and non-interest bearing checking accounts and is maintained at one financial institution. The balance may, at times, exceed federally insured limits. However Project Angel Food has not experienced any losses in such accounts.

(d) **INVESTMENTS**

Investments in marketable securities with readily determinable fair market values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reflected in the statement of activities as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulations or law.

(e) **ACCOUNTS RECEIVABLE**

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. All accounts receivable are deemed to be fully collectible at June 30, 2008; therefore, no allowance for doubtful accounts has been recorded.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) PLEDGES AND CONTRIBUTIONS RECEIVABLE

Unconditional contributions, including pledges recorded at estimated net realizable value, are recognized as revenues when the pledge is received. Project Angel Food reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as support until such time as the conditions are substantially met. Discounts for pledges (pledges due over one year) are recorded as reductions to contribution revenue and pledges receivable. Discounts increase contribution revenue when the pledge is received. An average discount rate of 3.5% has been used to calculate the present value of pledges receivable at June 30, 2008. All pledges and contributions receivable are deemed to be fully collectible at June 30, 2008; therefore, no allowance for doubtful pledges and contributions receivable has been recorded.

(g) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred.

Property and equipment are capitalized if the cost of an asset is greater than or equal to \$500 and the useful life is greater than one year. The estimated useful lives of property and equipment are as follows:

Building	50 Years
Kitchen Equipment	7 Years
Vehicles	5 Years
Furniture and Fixtures	7 Years
Leasehold Improvements	5 Years
Office Equipment	3 Years
Event Equipment	3 Years

(h) LONG-LIVED ASSETS

Project Angel Food reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the book value of the assets may not be recoverable. No impairment losses were recognized on long-lived assets during the year ended June 30, 2008.

(i) CONCENTRATION OF CREDIT RISK

Project Angel Food holds investments in the form of short-term money market investments, common stocks of publicly held companies and certificates of deposit. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Board of Directors.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) DONATED MATERIALS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Project Angel Food receives a significant amount of contributed time from volunteers that does not meet the recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements. Project Angel Food receives donated services in the form of kitchen assistants, drivers, Board of Directors and committee members, creative consultants, event volunteers, and office assistants. The hours contributed is estimated by management to be approximately 46,700 hours valued at \$493,815.

(k) ADVERTISING COSTS

Project Angel Food expenses the costs of advertising as incurred. Total advertising expense was \$222,798 for the year ended June 30, 2008.

(l) INCOME TAXES

Project Angel Food is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Project Angel Food's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Most of the indirect or shared costs are allocated among program and support services by the number of employees per department.

(n) USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Project Angel Food's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

(p) NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken, or expected to be taken, on a tax return. FIN 48 was initially effective for fiscal years beginning after December 15, 2006. The implementation date for non-public corporations for FIN 48 has been delayed and is now effective for fiscal years beginning after December 15, 2008. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to net assets. Project Angel Food expects to adopt FIN 48 effective July 1, 2009 and has not currently determined the impact of FIN 48 on the accompanying financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal periods beginning after November 15, 2007 and interim periods within those fiscal years. Project Angel Food expects to adopt SFAS No. 157 effective July 1, 2008 and has not currently determined the impact of SFAS No. 157 on the accompanying financial statements.

NOTE 3 - INVESTMENTS

Investments at June 30, 2008 consist of the following:

Marketable Equities	\$	9,225
Money Market Fund		<u>7,186</u>
TOTAL INVESTMENTS	\$	<u>16,411</u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 4 - PLEDGES AND CONTRIBUTIONS RECEIVABLE

Pledges and contributions receivable are expected to be collected as follows:

Within One Year	\$ 133,204
In One to Five Years	250,470
In Six to Ten Years	<u>60,000</u>
GROSS PLEDGES AND CONTRIBUTIONS RECEIVABLE	443,674
Present Value Discount	<u>(51,656)</u>
PLEDGES AND CONTRIBUTIONS RECEIVABLE (NET)	<u>\$ 392,018</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 consist of the following:

Land and Building (See Below)	\$ 6,971,699
Kitchen Equipment	873,361
Vehicles	156,599
Furniture and Fixtures	187,628
Leasehold Improvements	8,366
Office Equipment	112,918
Event Equipment	<u>55,967</u>
TOTAL	8,366,538
Less: Accumulated Depreciation	<u>(413,909)</u>
PROPERTY AND EQUIPMENT (NET)	<u>\$ 7,952,629</u>

Project Angel Food received a donation of land and building (Alvarado) valued at \$2,250,000 during the fiscal year ended June 30, 2000. The donor restricted Project Angel Food from selling the property for ten years, unless a selling price in excess of \$2,500,000 was received. In September 2007, the Alvarado property was sold, satisfying the donor's condition, for a selling price of approximately \$2,539,000.

Depreciation expense for the year ended June 30, 2008 was \$256,956 .

In September 2007, the Vine Street facility was completed and placed into service. The building is being used as a facility to prepare and distribute meals.

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 6 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2008 consist of the following:

Accrued Vacation	\$ 104,314
Accrued Salaries	58,340
Other Accrued Liabilities	<u>18,146</u>
TOTAL ACCRUED LIABILITIES	<u>\$ 180,800</u>

NOTE 7 - LINES OF CREDIT

Project Angel Food had a revolving line of credit in the amount of \$350,000 from a bank at an interest rate of 7.25%. The line of credit was secured by a deed of trust on land and building (Alvarado). This line of credit was paid in full following the sale of the Alvarado property referred to in Note 5.

Project Angel Food has a revolving line of credit in the amount of \$400,000 from a bank at an interest rate of 1% over the bank's prime rate. The bank's prime rate was 5% as of June 30, 2008. The line of credit is secured by a deed of trust on land and building (Vine Street). The outstanding balance as of June 30, 2008 was \$170,000. This line of credit matures in October 2012. Subsequent to year end, the line of credit was renegotiated. The line of credit was increased to \$900,000 at an interest rate of 1% over the bank's prime rate. The line of credit matures September 1, 2011.

NOTE 8 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2008:

Note Payable - Bank, Secured by a Deed of Trust on Land and Building (Vine Street), Interest at 6.95%, Monthly Principal and Interest Payments of \$20,520 with a Final Principal and Interest Payment of \$2,736,889 in January 2016	\$ 3,054,297
Note Payable - Government Agency, Secured by a Deed of Trust on Land and Building (Vine Street), Service Payback Loan Amortized over a Ten Year Period Ending October 2015	<u>367,778</u>
TOTAL NOTES PAYABLE	<u>\$ 3,422,075</u>

Project Angel Food had a note payable in the principal amount up to \$1,575,000 secured by a deed of trust on land and building (Alvarado and Vine Street). The note was paid in full in September 2007 following the sale of the Alvarado Property referred to in Note 5.

The bank's prime rate and the 30-day LIBOR index as of June 30, 2008 was 5.00% and 3.16%, respectively

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 8 - NOTES PAYABLE (continued)

Future minimum payments, by year, and in the aggregate, under these notes consist of the following:

Years Ending June 30

2009	\$	75,075
2010		77,591
2011		80,289
2012		83,180
2013		86,278
Thereafter		<u>3,019,662</u>
TOTAL	\$	<u><u>3,422,075</u></u>

NOTE 9 - CONTINGENCIES

Project Angel Food's grants and contracts are subject to inspection and audit by the appropriate governmental funding agencies. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, Project Angel Food has no provision for the possible disallowance of program costs on its financial statements.

NOTE 10 - ALLOCATION OF JOINT COSTS

During the year ended June 30, 2008, Project Angel Food conducted direct mail campaigns with total expenses of \$425,334 that included appeals for contributions, prospecting, and renewals and incurred joint costs of \$56,553. In addition, Project Angel Food conducted public education services which included a newsletter insert in the Los Angeles Times with total expense of \$75,000. These activities are deemed to be joint activities and are allocated as follows:

Program	\$	85,599
Special Events Expense		23,333
Fundraising		14,138
General and Administrative		<u>8,483</u>
TOTAL JOINT COSTS	\$	<u><u>131,553</u></u>

PROJECT ANGEL FOOD

NOTES TO FINANCIAL STATEMENTS June 30, 2008

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 consist of the following:

Capital Campaign	<u>\$ 392,018</u>
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NOTE 12 - FEES FROM GOVERNMENT AGENCIES

Government contracts for the year ended June 30, 2008 consist of \$393,320 for food programs.

NOTE 13 - RENTAL INCOME

Rental income from the Alvarado property consists of the following for the year ended June 30, 2008:

Rental Income	\$ 32,253
Depreciation Expense	<u>(1,059)</u>
<i>RENTAL INCOME (NET)</i>	<u>\$ 31,194</u>

In September 2007, the Alvarado property was sold.

NOTE 14 - IRREVOCABLE TRUSTS AND ESTATES

Project Angel Food has been notified of interests in irrevocable trusts and estates in which the amounts were either immaterial or indeterminable as of June 30, 2008. Therefore, no amounts have been recorded in the accompanying financial statements.

NOTE 15 - RETIREMENT PLAN

Project Angel Food maintains a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code which covers substantially all of its full time employees. It is an employee only contribution plan.

PROJECT ANGEL FOOD

SUPPLEMENTAL INFORMATION

YEAR ENDED JUNE 30, 2008

PROJECT ANGEL FOOD

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended 6/30/2008**

Federal Awards Agency - Program Grant Title	<u>Contract Number</u>	<u>Federal CFDA Number</u>	<u>Governmental Revenue</u>		<u>Program Expenditures from Governmental Revenue</u>
			<u>Federal</u>	<u>Nonfederal</u>	
Major Awards					
U.S. Department of Housing and Urban Development Passed through the Community Development Department of the City of Los Angeles Community Development Block Grant (Loan)	C-109150	14-218	\$ 367,778	\$ -	\$ 367,778
TOTAL MAJOR AWARDS			<u>367,778</u>	<u>-</u>	<u>367,778</u>
Non-Major Awards					
Federal Emergency Management Agency Pass-through Emergency Food and Shelter Program	069500-271	83.523	116,467	-	116,467
U.S. Department of Health and Human Services Passed through Department of Health Services of the County of Los Angeles Ryan White Title I	H-700267 OAPP	93.914	129,177	-	129,177
U.S. Department of Housing and Urban Development Passed through the Los Angeles Housing Department HOPWA	10667	14.241	<u>83,931</u>	<u>-</u>	<u>83,931</u>
TOTAL NON-MAJOR AWARDS			<u>329,575</u>	<u>-</u>	<u>329,575</u>
TOTAL FEDERAL AWARDS			<u>\$ 697,353</u>	<u>\$ -</u>	<u>\$ 697,353</u>

Summary of Significant Accounting Policies:

1. Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
2. The Organization is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See Independent Auditors' Report